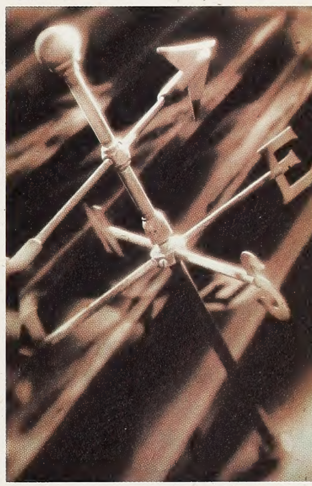
Agriculture
Financial Services
Corporation

Annual Report

1996–97



Agriculture
Financial Services
Corporation

1996-97 Board of Directors

Robert Splane, Chairman, Ardrossan

Robert Conibear, Donalda

Gene Dextrase, High Level

Aaron Falkenberg, Sherwood Park

Robert Hymas, Strathmore

Jack Iwabuchi, Fort Saskatchewan

Bernard Kotelko, Vegreville

Brian Manning, Red Deer

Jerry Thacker, Burdett

Executive Officers

Brian Manning
President and Managing Director

Andrew Church
Vice-President, Field Operations

Rick McConnell
Vice-President, Research, Information & Development

Dave Schurman
Vice-President, Finance and Administration

Mission Statement

We help customers in the agriculture and food industry fulfil their business goals by offering unique financial services.

Letter of Transmittal

August 15, 1997

The Honourable Ed Stelmach
Minister of Agriculture, Food and Rural Development
Province of Alberta
208 Legislature Building
Edmonton, Alberta
T5K 2B6

Minister:

On behalf of the Board of Directors, we are pleased to submit the third annual report of the Agriculture Financial Services Corporation.

As required by Section 14 of the Agriculture Financial Services Act (Statutes of Alberta 1993, Chapter A-12.5) the report contains a summary of the transactions and affairs of the Corporation and its revenues and the application of its expenditures for the fiscal year ended March 31, 1997. The report also contains audited financial statements, including a balance sheet, a statement of revenue, expense and surplus and a statement of change in its financial position.

Yours truly,

Robert Splane
Chairman of the Board of Directors

Brian Manning

Brian Manning
President and Managing Director

Minister's Message

The Agriculture Financial Services Corporation (AFSC) plays an important role in the continued growth and sustainability of Alberta's agricultural industry by helping Alberta farmers succeed through effective risk management.

Alberta leads the way with one of the strongest economies in North America. As part of the "Alberta Advantage" this Ministry encourages a positive business environment, a highly skilled and educated work force, advanced technology, high quality products, and low taxes.

With an abundance of natural resources and the growing expertise of our people, the potential of this province's agriculture and food industry is unmatched. Today's producers in both primary production and value-added businesses are in an ideal position to capitalize on remarkable opportunities – worldwide.

AFSC helps Alberta producers stay competitive. Through "one-stop" customer service, AFSC successfully delivers a variety of risk management products and financial services to meet the individual needs of Alberta farmers.

Lending programs help beginning farmers and developing agribusinesses manage their financial risk, while insurance programs help offset production and income risks. AFSC's products and services are vital to this government's vision for the agriculture industry: to ensure strong, viable farms and agribusinesses that are globally competitive and locally sustainable.

With this in mind, the Ministry has set an industry goal of realizing $20 billion in value-added sales and $10 billion in primary production by the year 2005. AFSC will play a crucial role in helping the industry arrive at this goal.

Through its Commercial Financial Services, AFSC offers a unique portfolio of innovative financing options, private sector business alliances, and local investment instruments – such as Local Opportunity Bonds – to encourage sustainable agribusiness growth.

The Beginning Farmer Program ensures young, energetic farmers continue to invest their time and money in building the farms of the future. In 1996 alone, AFSC helped more than 600 new farmers finance their farm businesses through long-term loans with reasonable and stable interest rates.

The challenge of declining insurance participation has been evident right across the country, and Crop Insurance in this province is no different. Through the 1996 National Review of Crop Insurance, AFSC heard suggestions from Canadian farmers, and late in 1996 introduced "New Look Crop Insurance" which offered Alberta farmers more flexibility and significantly lower premiums. Early reports indicate these changes will result in increased participation in the program for 1997.

Even with the best risk management plans, people in our industry can often find themselves at the mercy of nature and changing global markets. The first year of the Farm Income Disaster Program (FIDP), Alberta's newest safety net, was well received by farmers. FIDP is a trade-neutral, whole-farm support program, with all agricultural commodities eligible. In 1996, FIDP payments offered a much-needed measure of stability to 4,943 Alberta farms to ensure they remained viable during uncertain times.

Despite the challenges we all face in agriculture, I am excited about what the future holds. In 1996, for the first time, Alberta was first among all provinces for farm cash receipts. The province's goals for value-added sales and primary production are ambitious ones. With many factors working in our favor – agricultural risk management being one of them – there's every indication we will achieve this goal for all Albertans.

As minister, I look forward to working with Bob Splane, Chairman of the AFSC Board of Directors, and Brian Manning, President and Managing Director of the corporation. Both have shown a commitment to the corportion.

Ed Stelmach

Ed Stelmach
Minister of Agriculture, Food and Rural Development

Chairman's Message

The Board of Directors of AFSC is pleased to present the 1996-97 Annual Report, which marks a significant year for the Corporation. This is the third full year of operation for Agriculture Financial Services Corporation (AFSC) which began with the merger of the former Agricultural Development Corporation (ADC) and Alberta Hail and Crop Insurance Corporation (AHCIC). The Board commends everyone who has made this merger possible – from management right through to district office staff.

AFSC has grown to become a "one-stop" service provider for our customers. Our mission states that we help customers in the agriculture and food industry fulfill their business goals by offering unique financial services. It is these unique financial services – insurance, lending and income support products – that help Alberta producers grow more than food. They help grow Alberta.

AFSC's role – defined by the Ministry – is to help our customers thrive in today's agricultural environment through the effective use of risk management. The Ministry's industry goal of reaching $20 billion in value-added sales, and $10 billion in primary production by 2005 is an important one. And, AFSC programs will move our customers closer to this goal each year.

The Board's mandate is to ensure AFSC's programs remain viable and continually meet the needs of all Alberta farmers. With this in mind, AFSC's operational principles include: continued improvements to customer service, ongoing development of policy on agricultural finance and risk management, advancing business alliances for improved products and services, and prudent fiscal management.

In 1996-97, AFSC clearly met these goals. Customer service was enhanced through "New Look" Crop Insurance by offering farmers more flexibility and lower premiums. This new direction was a direct result of consultation with individual producers. Customer satisfaction surveys and focus group discussions form an ongoing part of the AFSC business plan to ensure we seek our customers' opinions before making changes.

AFSC's Beginning Farmer Program is also focused on the customer, matching unique lending products to the individual needs of new farmers. Through long-term security loans and mortgages that fit their business plans, new farmers get a positive start towards building viable farm businesses for the future.

On the policy side, the introduction of the Farm Income Disaster Program (FIDP) in 1996-97 was the result of years of policy development. This process allowed us to arrive at a trade-neutral, whole-farm safety net program for farmers who experience an unusual and disastrous decline in farm income. In 1996, FIDP helped 4,943 farmers make the best of a difficult previous year.

AFSC's strategic alliances with other businesses and governments continue to grow, both in the insurance and lending areas of the Corporation. In 1996-97, this was perhaps most evident in Commercial Financial Services. Many of the financial products and services of CFS are made possible through strategic business partnering – with other public and private organizations, and through innovative community-based investment programs like Local Opportunity Bonds.

All these activities occur with an eye towards delivering programs and services more efficiently, and reducing costs without compromising AFSC's program integrity.

Alberta's agricultural future is bright, and AFSC will help lead the way in providing valuable financial services for our customers. We are dedicated to being a leader, finding innovative ways of doing business through public/private partnerships. Other governments and agencies are watching our progress, and often following our course.

It has been a pleasure to maintain my involvement with AFSC as Chairman of the Board of Directors, and to continue on with such a dedicated team of professionals, management and staff. In my first year as Chairman, I have often reflected on the efforts of my predecessor, Harold Thornton who lead the direction of the Board in a private sector approach to board governance.

I welcome our newest Board member, Gene Dextrase from High Level who is providing valuable input and direction for the Corporation. Brian Manning has been our President and Managing Director for the past year and the Board sincerely appreciates his approach and leadership in challenging times.

The Board is most appreciative of the support and proactive response from the Minister of Agriculture, Food and Rural Development. As an industry we have great challenges and fortunately we have many great people who will help us meet those challenges.

Robert Splane
Chairman

Management Commentary

In 1996-97, the Corporation provided Alberta farmers with choices and tools to best fit the financial and production challenges of their businesses.

Performing to objectives set by the Board of Directors, the Corporation has provided an excellent level of customer service, continued development of important risk management tools and built on industry alliances to broaden financial services for Alberta farmers, while maintaining sound fiscal management.

Participation levels in the Crop Insurance program were down in 1996, reflecting a larger national trend. The "New Look" program for the 1997 crop year offered farmers more flexible coverage and significantly lower premiums, and these changes are expected to increase participation. Hail insurance in 1996 brought record participation, with an increase of more than 26% over the previous year.

On the lending side, short-term industry interest rates remained low compared to the 9% fixed rate on Beginning Farmer loans. Thanks to the flexibility of the program, many farmers were able to review their options and make a business decision to exchange long-term security for short-term interest gains by paying out their AFSC loans. This contributed to a $116 million decrease in the total lending portfolio, bringing it to $754 million for 1996-97. For other new farmers, however, the Beginning Farmer Program – including Vendor Mortgages – remained a good business fit, and 621 new entrants with loans totaling about $56.3 million were welcomed into the program in 1996-97.

Agricultural commodity prices and weather are factors which affect our customers, and affect the business results of the Corporation as well. In 1996-97, these conditions were favorable for most of our customers, resulting in a surplus of $67 million for AFSC. However, some areas were adversely affected by an early fall snow cover. There was also further damage on these snowed-under crops by wildlife and waterfowl, resulting in a record-high for wildlife compensation in the province.

These kinds of "unexpected disasters" are exactly why programs like the Farm Income Disaster Program (FIDP) have been introduced. FIDP was implemented for a three-year trial period to provide safety-net support to farmers who experience extreme drops in margins. In this first year of the program, $63.3 million was paid to 4,943 Alberta farms.

AFSC's Commercial Financial Services group made significant strides in 1996-97. The CFS's role is to facilitate the successful capitalization of viable new agribusiness projects through strategic business alliances with other lending institutions and/or investment sources. In fact, CFS secured $40.9 million in financing with almost 84% of this amount coming from alliance partners beyond AFSC.

Finally, the Revenue Protection Program, commonly known as GRIP, was completed in 1996-97. The program's surplus was distributed back to stakeholders in the same proportion in which contributions were made: with farmers receiving 25% ($16 million), the Alberta government receiving 33% ($21 million), and the federal government receiving 42% ($27 million).

On the operational side, AFSC continued to streamline its business practices in 1996-97, resulting in lower operational costs. Crop insurance administration costs were under 10% of revenues for the current year, compared to an average of 17% for other provinces. The general insurance industry reported administration costs of 15%-20%, and in the United States, crop insurance administration costs are as high as 29% of premiums.

Assets administered per employee is a benchmark closely followed in the lending business. AFSC's assets-per-employee figure for farm lending was $5.9 million in 1996-97. Recent information from major banks indicates a less favorable ratio of $3.9 million per employee. Other government farm lending organizations were also lower than AFSC's.

Like all insurance and lending organizations, AFSC relies on computers in transacting business, and during the past two years the Corporation has significantly improved delivery time through newly developed software and their Point of Sale Transaction (POST) program. Because of this technology, farmers could review a variety of coverage and pricing options before making business decisions, and statements of premium and coverage were delivered to the farm up to six weeks earlier than before.

By delivering fiscally responsible programs that continue to meet the growing diversity of our customers' businesses, AFSC helps ensure a dynamic farm economy. Our industry is an impressive one, involving both Alberta's rural and urban economies.

Agriculture employs one in three Albertans – either directly, or through related services such as beverage processing, wholesaling, packaging, retailing, transportation, and other professional services such as legal and accounting. With just 9% of the country's population, Alberta produces about 20% of the dollar value of Canada's total agricultural output. Alberta farmers sold a record $6.67 billion in agricultural commodities in 1996 (defined as farm cash income), the highest of any Canadian province.

Agriculture touches everyone, from those who grow the food we eat, to consumers who rely on Alberta's high quality fresh meat, grains and produce. AFSC's role is to help make sure farms stay viable, that farmers have good risk management tools to help them with the challenges of a demanding and sometimes unpredictable industry, and to ensure farming is here in the years to come to help feed Albertans, Canadians and the world.

Highlight on Service

Customer Service

One of AFSC's biggest customer service efforts of 1996-97 came as a result of going out "into the field" and consulting with customers. During the 1995 National Review of Crop Insurance, AFSC held regional meetings across the province to gather input from farmers and advisory groups on their collective vision for the future of Crop Insurance in Alberta. Many ideas were shared, and from this was born the "New Look" Crop Insurance program.

"New Look" Crop Insurance offered farmers greater flexibility and significantly lower premiums – on average, a 25% year-over-year drop in premiums. A new 50% coverage level was added, allowing farmers basic yet comprehensive insurance protection at minimal cost. Changes were also made to the Unseeded Acreage Provision to recognize new production practices for minimum and zero till, and changes were made to cushion coverage against low production records. All these changes answered comments heard from Alberta farmers, and early indications show that these improvements will increase program participation.

The Point of Sale Transaction (POST) program continued to serve customers very well. POST allowed insurance administrators to enter cropping and election information into the computer system, and print the Statement of Coverage and Premium while the farmer waited. This enabled farmers easy selection from among many insurance options while speeding up delivery time. After being introduced as a pilot program in 1995, overwhelming response from farmers resulted in AFSC offering POST in every district office in the province. As an enhancement to this program the "Automated Proposal System" was added in 1996 to allow farmers to examine the impact that different crops, locations, and elections would have on costs. The cost and coverage proposal could be generated any number of ways, printed, and given to the farmer for further review, or his decisions could be made right at the district office. This powerful planning tool generated many positive comments from customers using this improved technology.

The Corporation is continually looking for ways of giving customers more choices in how they conduct business with AFSC. A review is underway to determine how customers prefer to receive information and transact business with the Corporation: by mail, phone, fax, computer, or in person at the district offices.

On the lending side, Commercial Financial Services served customers well by growing and strengthening business alliances with other lending institutions and investment sources. This allowed customers access to increased sources of capital and greater financing options. And, through the agricultural expertise of the AFSC staff, customers could be sure other strategic partners had a thorough understanding of the industry, and each customer's specific needs.

First Stop Service

The First Stop Service goal is to make it easier for farmers to conduct as much agricultural business in one location as possible. Wherever feasible, AFSC continued to move field offices together with key business partners, Agriculture, Food and Rural Development (AFRD) and the Farm Credit Corporation (FCC). In 1996-97, four more offices combined insurance, lending and AFRD services.

Programs

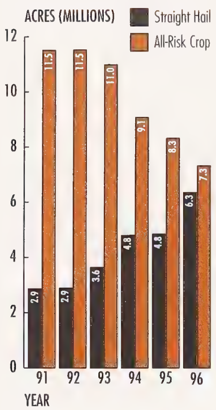
Canada-Alberta Crop Insurance

The Canada-Alberta Crop Insurance program continues as Alberta's major crop protection program in the province. The program includes acreage seeded to grains and oilseeds, hay and pasture crops, honey, grain corn, sugar beets, vegetables and a number of other specialty crops. Alberta insures 39 different crops, and a multitude of varieties within each crop.

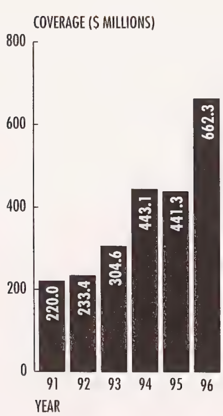
Crop insurance covers insured farmers against production-related risks based on long-term average yields. Indemnities, when warranted, are paid at a pre-determined price for any shortfall in production that farmers sustain as a result of insurable natural perils. The pre-determined price, or "price option", is set annually before the crop season, and attempts to closely reflect the current year's market price.

Under the cost-sharing agreement, costs are shared between producers and the two levels of government. Producers pay 50% of the premium, and the remaining 50% (plus administration costs) is equally shared between the provincial and federal governments.

Acres Insured
Straight Hail and
All-Risk Crop Insurance



Coverage
Straight Hail Insurance



Summary statistics showed an increase in 1996 for the overall program, with total premiums rising to $121.7 million from $114.4 million. This increase was due to higher total coverage because of strong or increased market prices. Total losses, including all elements of the program (all-risk, forage and hail endorsement) were $46.4 million, for a loss-to-premium ratio of 38%, significantly lower than the previous year mostly due to favorable weather.

Although the premiums were up and claims were down, participation based on acreage and number of contracts continued to decline in 1996-97. This decline is similar to agricultural crop insurance programs in other provinces. The "New Look" program was introduced in the spring of 1997 to encourage participation by offering farmers more flexible coverage with significantly lower premiums.

Forage insurance, an important component of all-risk crop insurance, offers a production guarantee to Alberta's forage producers. Farmers may insure all their hay or pasture acres with a specific production guarantee at a pre-determined price. In 1996, losses were $1.5 million, significantly less than 1995's drought-influenced losses of $6 million. Participation in this program remained constant at 1,952 contracts and approximately 1.1 million acres insured.

Highlights of Crop Insurance Operations

1996-97	Contracts	Acres (Millions)	Premiums ($Millions)	Claims ($Millions)
Crop	14,290	7.3	$ 87.1	$ 25.7
Forage	1,952	1.1	$ 4.4	$ 1.5
Hail Endorsement	9,738	5.1	$ 30.2	$ 19.2
TOTAL			$ 121.7	$ 46.4

Farm Income Disaster Program (FIDP)

1996-97 saw the introduction of Alberta's newest safety net program, the Farm Income Disaster Program. FIDP, designed to compensate farmers for losses in farm income of "disastrous" proportions during the 1995 tax year. This marked the first year of a three-year trial period. Designed to be GATT-friendly, FIDP is a whole-farm safety net program, in which all agricultural commodities are eligible. During the first year of the program, the Corporation recorded payments totaling $63.3 million to 4,943 farms. Of those approved applications, 84% were in the Vermilion, Barrhead and Red Deer regions, as these farmers were hit hardest by drought conditions, low cattle prices and high feed grain prices.

Hail Insurance

Straight Hail Insurance is available for farmers who need the peace of mind that can come with this affordable one-peril coverage. Straight Hail can be added to a farmer's existing All-Risk coverage, or can be taken on its own.

Prairie hail storms are common, and high market prices for most crops in 1996 boosted participation to a record level. Even with competition from other insurance underwriters offering hail insurance, AFSC increased its share of this market by more than 26% over the previous year. Under the program, farmers may insure up to a maximum dollar coverage per acre and losses are paid based on the percentage of damage that occurs. The hail program is entirely self-sustaining and operates without government funding.

Waterfowl and Wildlife Damage Compensation

Early snow cover in parts of the province meant many Alberta farmers had difficulty getting their crops off the field in 1996. Difficult access to natural feed sources increased wildlife depredation on agricultural crops that could not be harvested, resulting in a record increase in claims for the program. The number of losses were recorded at 2,784 ($10,526,379 paid), up from 546 ($923,144 paid) for the previous year. And, despite this record increase, AFSC continued its high level of service to farmers by maintaining the usual delivery of a 24-hour adjusting turn-around.

Revenue Protection Plan

As mentioned in the Management Commentary in this report, the Revenue Protection Program ended in 1996-97, with the program surplus distributed back to stakeholders: farmers received $16 million, the Alberta government received $21 million, and the federal government received $27 million.

Beginning Farmer Program

The Beginning Farmer Program is one of AFSC's core lending products, providing long-term, fixed-rate loans each year for new entrants into farming. This program enables hundreds of farmers to get a healthy start in agriculture. Qualifying farmers pay an effective rate of 9%, fixed for the life of the loan. During the first five years of the loan, borrowers are eligible for an incentive which effectively reduces the interest rate to 6%.

Due to lower short-term industry interest rates, many farmers made a business decision to exchange long-term security for short-term interest gains by paying out their AFSC loan. In 1996-97, overall Beginning Farmer and Vendor Mortgage Plan loans decreased from $71.5 million to $56.3 million. However, these programs remained a good business fit for many new farmers, with 621 new loans approved in 1996-97, averaging about $90,000 each.

Other Farm Lending

Other direct and guaranteed farm lending totaled $86.6 million, down from the previous year's $98.7 million.

Measuring Lending Performance

AFSC continues to maintain a well-managed portfolio. Banks and other financial institutions commonly evaluate their portfolios by assessing level of arrears, or accounts that are behind in payment. For AFSC in 1997, accounts in arrears greater than one year increased to 1.72% of total accounts from 1.46% the previous year, the first increase in eight years. The dollars of arrears compared to dollars in the portfolio increased from 1.55% in 1996 to 1.83% in 1997. AFSC staff continue to work proactively with customers before arrears become problematic.

Total properties for resale, another indicator of the strength of the loan portfolio, dropped to five-and-one-half quarter sections of land this year, down from nine quarter sections last year. AFSC's effort to control costs by making judicious lending decisions, and by working closely with customers who are in arrears, has resulted in very strong portfolio performance.

The Agribusiness Economy

World demand for value-added products is growing rapidly, and there is immense potential for growth in Alberta. Accordingly, AFSC continues to recognize the importance of financing businesses that add value to agricultural products.

This shift in focus from raw, bulk commodities to value-added processing is supported by Agriculture, Food and Rural Development with its target of increasing value-added sales four-fold to $20 billion by 2005. In the same time frame, primary production is expected to grow to $10 billion. These two goals are closely linked; primary production will only grow if value-added does. The benefits from value-added processing are numerous; it results in a more stable demand for products, less volatile returns and high levels of employment and economic activity.

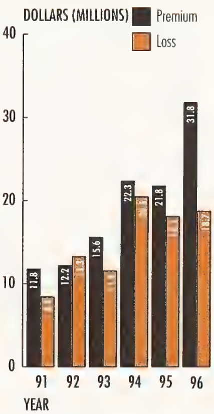
This province's agri-food industry is well-positioned to compete in this environment based on its productivity, use of technology, strategic location, quality products and links to consumer markets. Efficiency, productivity and competitiveness, all part of the Alberta Advantage, will determine our success.

To help Alberta farmers succeed, sources of capital – both private and public – need to be found for new or expanding agribusinesses. AFSC's Commercial Financial Services group facilitates the capitalization of viable new agribusiness projects through alliances with other lending institutions or investment sources. The CFS division recorded $40.9 million in new financing in 1996-97, and the total agribusiness loan portfolio administered by AFSC reached 199 accounts for a total of $51.6 million this year.

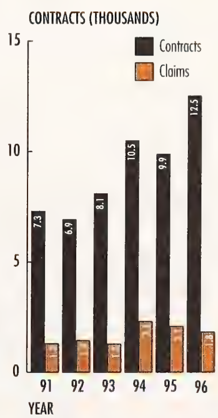
Local Opportunity Bonds

Local Opportunity bonds are a means for rural communities to get directly involved in funding new or expanding small businesses in their local areas. They also offer a way for rural small businesses to raise capital from the public. Bonds are only issued by AFSC after community and investor support is in place. In 1996-97, $2 million worth of bonds were provided for Alberta agribusinesses.

Premium and Loss Straight Hail insurance



Contracts and Claims Straight Hail Insurance



Agriculture Financial Services Corporation
Corporate Business Plan Highlights 1996 – 1997

Corporate Business Plan Highlights

Program	Goal	Progress
Commercial Financial Services	Expand markets for Alberta primary farm production.	• Worked closely with the hog industry and AFRD to promote hog expansion opportunities in Alberta. Facilitated capital requirements for several large hog operations.
	Increase investment and employment opportunities in Alberta agrifood processing industry, and rural areas.	• Facilitated $80 million investment into Alberta agrifood businesses.
	Provide more financing alternatives for Alberta-based agribusinesses.	• $17.5 million in new loans secured under FCC agreement. • Developed alliances with other financial partners, providing access to new sources of debt and equity capital for agribusinesses. $15 million in additional capital committed. • Local Opportunity Bonds program accessed capital in several local communities.
Crop Insurance	Increase program participation.	• "New Look" crop insurance introduced for 1997 crop year to significantly increase acreage insured.
	Create more knowledgeable, self-reliant customers, and educate customers regarding insurance as a "risk management" tool.	• Crop Insurance and Farm Income Disaster Program (FIDP) form the core of Alberta's streamlined safety net packages. Customers participate in regular "input advisory" meetings, and computer systems provide farmers immediate and personalized risk management information.
	Reduce impact of natural peril-related shortfalls.	• Crop Insurance improved to be more responsive to natural disasters through affordable insurance premiums, flexible coverage options and changes to unseeded acreage benefit.
Farm Income Disaster Program (FIDP)	Meet participants' needs, as measured by program results.	• Over $63 million was paid to 4,943 claimants whose net margin dropped below 70% of their farm's previous three-year average.
	Avoid concerns about impact of FIDP on existing trade agreements.	• No countervail or other trade actions have been raised about FIDP. The World Trade Organization declared FIDP within the spirit of the latest GATT agreement.

Program	Goal	Progress
Beginning Farmer Program	Maintain supply of new entrants into farming.	• Over 600 loans made to beginning farmers with an average age of 33 years.
	Encourage beginning farmers to stay farming and successfully develop viable farm businesses.	• 98.3% of customers are current in their loan payments. Began a study of the BFP to determine impact of the program. Study to be completed in 1997/98.
	Decrease loan disbursement turnaround time.	• Continued to streamline administrative process to ensure faster response times.
Hail Insurance	Encourage growth of higher value crops in Alberta, and production of crops in hail-susceptible areas.	• Program designed to insure any crop, in any area of the province. Hail insurance experienced record sales in 1996.
	Reduce variability of farm cash flow.	
Wildlife Damage Compensation	Minimize negative reaction to government support for wildlife habitat through compensation program for crop damage caused by wildlife.	• Over $10 million in compensation payments, with 24-hour adjuster response time.
Revenue Insurance Program (GRIP)	Provide smooth and orderly transition out of program.	• In January 1997, final indemnities were paid and program surplus was distributed to farmers ($16 million), Alberta government ($21 million) and federal government ($27 million) in proportion to premiums paid by each.
	Minimize customer dissatisfaction with program termination.	• Over 90% of GRIP customers voluntarily exited the program. Of 20,000 participants, very few expressed dissatisfaction with decision to terminate program or method of surplus distribution.

Summary of Lending Activity

	1996/97		1995/96		Accumulated Authorizations June'72 - March'97		Active and Outstanding "March 31, 1997"	
	No.	$ MIL.	No.	$ MIL.	No.	$ MIL.	No.	$ MIL.
Farm Direct Loans								
Beginning Farmer	612	55.3	778	70.1	15,364	1,615.8	8,942	656.5
Developing Farmer	6	0.8	7	0.7	178	17.8	112	9.5
Northwest Disaster	0	0.0	0	0.0	196	5.4	56	0.9
Western Disaster	0	0.0	0	0.0	322	10.7	87	1.9
Southeastern Disaster	0	0.0	0	0.0	833	67.9	420	22.3
Other	0	0.0	0	0.0	5,289	278.9	1,060	40.4
Subtotal	**618**	**56.1**	**785**	**70.8**	**22,182**	**1,996.5**	**10,677**	**731.5**
Farm Guarantees								
Specific Guaranteed Loans	2	0.1	2	0.6	1,956	87.8	19	2.2
Alberta Farm Development Loans	4,106	85.7	4,821	97.4	156,821	1,951.3	14,516	212.0
Farm Development Guaranteed Loans	0	0.0	0	0.0	431	17.4	0	0.0
Vendor Mortgage Loans	9	1.0	13	1.4	74	7.3	61	5.5
Implemented Guaranteed Loans	0	0.0	0	0.0	0	0.0	29	0.5
Subtotal	**4,117**	**86.8**	**4,836**	**99.4**	**159,282**	**2,063.8**	**14,625**	**220.2**
TOTAL FARM	**4,735**	**142.9**	**5,621**	**170.2**	**181,464**	**4,060.3**	**25,302**	**951.7**
Commercial								
Direct Loans	16	4.8	20	5.3	348	140.5	100	16.3
Specific Guaranteed Loans	4	1.8	5	0.8	500	202.6	16	1.5
Canada-Alberta Partnership on Agri-food	0	0.0	0	0.0	69	17.4	65	13.1
Local Opportunity Bonds	2	2.0	—	—	2	2.0	1	0.7
Implemented Guaranteed Loans	0	0.0	0	0.0	0	0.0	1	0.1
Farm Credit Corporation Loans	6	17.5	7	8.6	13	26.1	13	17.9
Other	7	14.9	—	—	7	14.9	3	2.0
Subtotal	**35**	**41.0**	**32**	**14.7**	**939**	**403.5**	**199**	**51.6**
CORPORATE GRAND TOTAL	**4,770**	**183.9**	**5,653**	**184.9**	**182,403**	**4,463.8**	**25,501**	**1,003.3**

Farm Income Disaster Program: Claims Paid for the 1995 Tax Year

Out of 6,220 claims received for $92,592,360, 4,943 claims for $63,306,234 were paid as of June 30, 1997. There were 1,271 declined or ineligible claims. The remaining six claims are still awaiting additional information at the time of this report.

Claims under the program are accounted for on an accrual basis. Accordingly, estimated claims payable for the 1995 tax year of $91 million were accrued as a liability in the 1995/96 financial statements while payments were made in 1996 and 1997. Out of $91 million accrued, claims for $63.3 million have been paid as of June 30, 1997 and an additional $2.1 million was provided for outstanding claims, bringing the total claims for the 1995 tax year to $65.4 million. This leaves an unexpended balance of $25.6 million for the 1995 tax year.

Claims payable under the program for the 1996 tax year were estimated at $106 million. For more details, please see Note 13 to the financial statement.

Region	Number of Claims	Amount Paid
Lethbridge	443	$ 8,220,125
Red Deer	995	12,432,084
Vermilion	2,169	28,494,990
Barrhead	1,004	10,118,069
Fairview	332	4,040,966
TOTAL	4,943	$ 63,306,234

Average payment per claim $12,807.

Summary for All Risk Crop Insurance by Crop Year

Crop Year	Number of Contracts	Acres ,000	Risk $,000	Premium $,000	Number of Losses	Loss $,000	Loss / Premium Percent
1992	24,721	11,518	772,244	79,503	15,632	142,912	179.8
1993	23,268	10,979	827,081	93,205	8,667	60,287	64.7
1994	19,907	9,069	620,993	83,542	5,929	23,224	27.8
1995	16,141	8,310	675,327	86,414	4,781	31,349	36.3
1996	14,290	7,309	783,944	87,169	4,094	25,760	29.6
TOTALS	**98,327**	**47,185**	**$3,679,589**	**$429,833**	**39,103**	**$283,532**	**66.0**

Note: Loss contains one or more of the following types of loss: Production, Reseeded, Unseeded, Snowed Under, Long Term Disaster

Summary for Straight Hail by Crop Year

Crop Year	Number of Contracts	Acres ,000	Risk $,000	Premium $,000	Number of Losses	Loss $,000	Loss / Premium Percent
1992	6,910	2,886	233,438	12,183	1,439	13,276	109.0
1993	8,083	3,634	304,641	15,579	1,279	11,561	74.2
1994	10,484	4,795	443,130	22,343	2,301	20,467	91.6
1995	9,876	4,838	441,256	21,767	2,078	18,101	83.2
1996	12,506	6,344	662,338	31,780	1,817	18,739	59.0
TOTALS	**47,859**	**22,497**	**$2,084,803**	**$103,652**	**8,914**	**$82,144**	**79.2**

Summary for Hail Endorsement by Crop Year

Crop Year	Number of Contracts	Acres ,000	Risk $,000	Premium $,000	Number of Losses	Loss $,000	Loss / Premium Percent
1992	3,836	907	72,869	4,106	591	3,359	81.8
1993	3,470	854	79,116	4,348	390	2,764	63.6
1994	0	0	0	0	0	0	—
1995	10,039	5,166	445,610	24,826	2,412	20,315	81.8
1996	9,738	5,090	568,105	30,184	1,844	19,231	63.7
TOTALS	**27,083**	**12,017**	**$1,165,700**	**$63,464**	**5,237**	**$45,669**	**72.0**

Note: Hail Endorsement not offered in 1994

Summary for Forage Insurance by Crop Year

Crop Year	Number of Contracts	Acres ,000	Risk $,000	Premium $,000	Number of Losses	Loss $,000	Loss / Premium Percent
1992	5,404	4,891	54,557	10,810	3,330	18,013	166.6
1993	5,304	3,677	53,483	11,499	2,313	6,824	59.3
1994	2,837	1,431	22,376	5,366	794	1,229	22.9
1995	1,964	1,080	14,865	3,464	1,246	5,976	172.5
1996	1,952	1,135	17,960	4,413	541	1,530	34.7
TOTALS	**17,461**	**12,214**	**$163,241**	**$35,552**	**8,224**	**$33,572**	**94.4**

Wildlife Compensation Program by Crop Year

	WILDLIFE		WATERFOWL		TOTAL	
Crop Year	Number of Losses	Dollar Losses	Number of Losses	Dollar Losses	Number of Losses	Dollar Losses
1992	142	225,647	352	766,523	494	992,170
1993	116	213,154	271	725,163	387	938,317
1994	54	98,644	217	438,851	271	537,495
1995	266	450,571	280	472,573	546	923,144
1996	1,452	4,265,963	1,332	6,260,416	2,784	10,526,379
TOTALS	**2,030**	**$5,253,979**	**2,452**	**$8,663,526**	**4,482**	**$13,917,505**

Management's Responsibility for Financial Reporting

The preparation of these financial statements, management's discussion and analysis and all other financial information relating to the Corporation contained in this annual report is the responsibility of management. The financial statements have been prepared in conformity with Canadian generally-accepted accounting principles, using methods appropriate for the industry in which the Corporation operates and necessarily include some amounts that are based on informed judgments and best estimates of management. The financial information contained elsewhere in this annual report is consistent with that in the financial statements.

Management depends upon internal accounting control systems to meet its responsibility for reliable and accurate reporting. These control systems are subject to periodic review by the Corporation's internal auditors.

The Alberta Auditor General, the Corporation's independent auditor, is responsible to express a professional opinion on the financial statements.

The Board of Directors Audit Committee, composed of non-management directors, oversees management's responsibilities for financial reporting. The Audit Committee meets regularly with management, the internal auditors and the independent auditors to discuss auditing and financial matters, gain assurance that management is carrying out its responsibilities and to review and approve the financial statements. The auditors have full and free access to the Audit Committee.

Brian Manning

Brian Manning
President and Managing Director

Dave Schurman, C.A.
Vice-President, Finance and Administration

Agriculture Financial Services Corporation

Financial Statements March 31, 1997

Alberta Legislature
Office of the Auditor General

Auditor's Report

To the Board of Directors of the Agriculture Financial Services Corporation

I have audited the balance sheet of the Agriculture Financial Services Corporation as at March 31, 1997 and the statements of revenue, expense and surplus, and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Peter Valentine

FCA
Auditor General
Edmonton, Alberta
May 16, 1997

Balance Sheet

As at March 31, 1997

	1997	1996
ASSETS:		
Cash	$ 81,325,808	$ 115,858,252
Accounts receivable (Note 5)	5,704,484	6,079,479
Due from Province of Alberta (Note 6)	70,334,074	—
Due from Government of Canada (Note 7)	15,461,425	—
Loans receivable (Note 8)	753,826,845	870,328,593
Investments (Note 9)	179,932,890	159,778,075
Other assets (Note 10)	773,969	5,800,361
Capital assets (Note 11)	4,404,276	4,503,158
	$ 1,111,763,771	$ 1,162,347,918
LIABILITIES AND SURPLUS:		
Accounts payable and accrued liabilities (Note 12)	$ 6,589,021	$ 25,484,798
Estimated indemnities payable (Note 13)	125,315,777	93,456,337
Due to Province of Alberta (Note 6)	—	46,312,376
Due to Government of Canada (Note 7)	—	23,875,712
Due to Crop Reinsurance Fund of Alberta (Note 14)	45,172,417	28,927,288
Due to Crop Reinsurance Fund of Canada for Alberta (Note 14)	294,616	906,281
Allowance for losses on loan guarantees (Note 15)	6,805,000	4,998,000
Long-term debt (Note 16)	769,633,826	848,930,504
Deferred Canada-Alberta Partnership on Agri-food contribution (Note 7)	3,718,447	2,565,079
	957,529,104	1,075,456,375
Surplus	154,234,667	86,891,543
	$ 1,111,763,771	$ 1,162,347,918

Approved by the Board:

Bob Hymas, Director

Brian F. Manning
President & Managing Director

The accompanying notes and schedules are part of these financial statements.

Statement of Revenue, Expense and Surplus

For the Year Ended March 31, 1997

	1997 Actual (Schedule 1)	1997 Budget (Note 3(a))	1996 Actual
Revenue:			
Premiums from insured persons	$ 87,660,658	$ 86,475,100	$ 79,375,023
Interest (Note 17)	72,920,890	73,024,882	70,826,347
Contribution from Province of Alberta	143,117,000	190,394,747	184,373,263
Contribution from Government of Canada	46,958,579	42,139,342	39,126,072
Investment income	19,862,280	7,000,000	14,700,940
Fees and other income	3,137,894	1,400,000	1,660,467
Amortization of loan discounts	12,516,612	1,976,180	8,800,600
	386,173,913	402,410,251	398,862,712
Expense:			
Indemnities	163,000,024	241,374,724	164,774,945
Interest	73,661,906	79,847,000	84,645,128
Reinsurance	33,086,957	41,265,060	32,024,573
Disaster assistance interest benefit	—	—	16,320,780
Farm loan incentives	7,914,231	8,891,000	8,057,436
Administration, Schedule 2	32,777,341	31,887,000	31,129,147
Provision for doubtful accounts and for losses (Note 18)	3,741,219	4,200,000	(10,176,938)
	314,181,678	407,464,784	326,775,071
Excess (deficiency) of revenue over expense before recoveries	71,992,235	(5,054,533)	72,087,641
Net recoveries, Schedule 1	(4,649,111)	—	(18,231,169)
Surplus (deficit) for the year	67,343,124	$ (5,054,533)	53,856,472
Surplus at beginning of year	86,891,543		33,035,071
Surplus at end of year	$ 154,234,667		$ 86,891,543

Statement of Changes in Financial Position

For the Year Ended March 31, 1997

	1997	1996
Operating activities:		
Surplus for the year	$ 67,343,124	$ 53,856,472
Charges not affecting cash	(11,592,149)	(17,972,302)
Changes in assets and liabilities relating to operations	(92,632,491)	92,257,566
Net cash (utilized) provided by operating activities	(36,881,516)	128,141,736
Investing activities:		
Proceeds from repayments of loans receivable and sale of properties	188,014,337	96,318,553
Loan disbursements	(62,393,431)	(76,495,189)
Change in investments	(16,924,975)	(58,362,577)
Purchase of capital assets	(874,841)	(630,243)
Proceeds on disposal of other assets	4,000,000	275,000
Proceeds on disposal of capital assets	28,724	26,643
Net cash (utilized) provided by investing activities	111,849,814	(38,867,813)
Financing activities:		
Long-term borrowing from the Province of Alberta	24,875,000	—
Short-term borrowing from the Province of Alberta	24,726,400	32,406,240
Repayment of long-term debt from the Province of Alberta	(101,969,502)	(57,127,489)
Repayment of short-term borrowing from the Province of Alberta	(57,132,640)	—
Net cash utilized by financing activities	(109,500,742)	(24,721,249)
Net increase (decrease) in cash from operating, investing and financing activities	(34,532,444)	64,552,674
Cash at beginning of year	115,858,252	51,305,578
Cash at end of year	$ 81,325,808	$ 115,858,252

Notes to the Financial Statements

March 31, 1997

Note 1 Authority and Purpose

The Agriculture Financial Services Corporation (the "Corporation") operates under the authority of the Agriculture Financial Services Act, Chapter A-12.5, 1993.

The Corporation provides lending and insurance services and compensation programs. Its core programs and services include loans to beginning farmers, commercial lending, crop insurance and hail insurance. It also delivers other programs and services including loans to developing farmers, loan guarantees, business planning/counselling, the local opportunity bond program and the Farm Income Disaster Program. The Corporation acts as Alberta agent for commercial lending for the federal Farm Credit Corporation.

Note 2 Significant Accounting Policies and Reporting Practices

(a) Revenue Recognition

Interest revenue on loans receivable is recognized as earned unless the ultimate collectibility of the loan is in doubt. When a loan is classified as doubtful, interest revenue is no longer recognized and, when applicable, an allowance is provided for expected losses on outstanding interest and principal balances.

Loan application fees are recognized when the applications are received and loan fees are recognized at the time of loan disbursement. Farm Income Disaster Program application and administration fees are accrued based on the number of applications and the amount of estimated indemnities. Other fees are recorded when the Corporation completes the applicable work.

(b) Cash

Cash consists of deposits in the Consolidated Cash Investment Trust Fund of the Province of Alberta. The Fund is invested primarily in securities maturing in less than one year which are either issued or guaranteed by the Canadian federal and provincial governments, deposits given by or guaranteed by chartered banks, or short-term investment-grade-quality notes of Canadian corporations. Interest is earned on the daily cash balance at the average rate of earnings of the Fund which varies depending on prevailing market interest rates.

(c) Fair Value of Financial Instruments

Short-term financial instruments are valued at their carrying amounts included on the Balance Sheet, which are reasonable estimates of fair value due to the relatively short period to maturity of the instruments. This approach applies to cash, accounts receivable, Due from Province of Alberta, Due from Government of Canada, accounts payable and accrued liabilities, estimated indemnities payable, Due to Province of Alberta and Due to Government of Canada. Loans receivable and Allowance for losses on loan guarantees do not have fair values disclosed due to the difficulty in determining the amount. Investments and long-term debt fair values are disclosed in their respective notes.

(d) Investments

Investments are carried at cost or amortized cost unless there is an other than temporary decline in the value of the investments, when the investments are written down to recognize the loss. Premiums and discounts on investments are amortized to investment income using the straight line method over the period to maturity of the related investment. Gains and losses realized on disposal of investments are included in investment income.

(e) **Capital Assets and Amortization**
Capital assets are recorded at cost. Amortization is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Building	40 years
Computer equipment	5 years
Equipment and furniture	10 years
Vehicles	5 years

(f) **Property Held for Sale**
Property held for sale is recorded at the lower of cost and estimated net realizable value. Cost is comprised of the balance of the loan at the date on which the Corporation obtains title to the property plus subsequent disbursements related to the property less any revenues or lease payments received.

Note 2

Significant Accounting Policies and Reporting Practices (continued)

(g) **Provision for Losses on Loans and Guarantees**
Provisions are established for specifically identified potential losses on loans and guarantees as well as for anticipated, but not specifically identified, losses. A specific provision is established on a loan-by-loan basis by discounting estimated future cash flows or fair value of security for impaired loans. Since the amounts and timing of future cash flows cannot be estimated with reasonable reliability, the fair value of security is used. The change in the present value attributed to the passage of time on the expected future cash flow is reported as a credit to the provision for doubtful accounts and for losses on the Schedule of Revenue, Expense and Surplus.

An impaired loan is a loan in which there is risk of loss to the Corporation for full and timely collection of the debt. Impairment may be due to a security deficiency, inadequate cash flow, economic factors in a specific segment of the industry or a catastrophic event.

The majority of the Corporation's loan portfolio is with beginning and developing agricultural operations. Selling prices for agricultural products are subject to significant fluctuation related to world wide inventories of various commodities and subsidies provided by various governments. Further, crop production can be severely eroded during adverse weather. Therefore, the Corporation's portfolio tends to be subject to higher risk than portfolios of other lenders. The Corporation recognizes this risk by providing significant general allowances for doubtful accounts.

(h) **Loan Discounting**
Loans made under the disaster assistance programs, Canada-Alberta Partnership on Agri-food program, and amounts previously deferred under the Indexed Deferral Plan have been discounted because they involve significant concessionary elements. The amounts outstanding have been discounted to their estimated present value. The amounts discounted are being amortized to revenue over the lives of the concessionary terms.

(i) **Pension**
Liability
Accounts payable and accrued liabilities include the portion of unfunded pension liability for the Public Service Pension Plan and the Management Employees Pension Plan incurred on behalf of some of the Corporation's employees.

Expense
Pension costs comprise: the cost of pension benefits earned by employees during the year; interest on the Corporation's share of the unfunded pension liability; the amortization of deferred adjustments over the expected average remaining service life of employees which relate to the long term; adjustments to the pension obligation recognized immediately if there is reasonable assurance that a gain or loss has been realized; and the effect of the change in the ratio used to allocate the plan's total unfunded liability to participating entities. The net expense or recovery is included as part of salaries and benefits expenses.

Note 3 Financial Structure

(a) The budget as shown in the Statement of Revenue, Expense and Surplus was approved by the Board of Directors on February 27, 1997 and reflects contributions by the Province of Alberta authorized through the Legislative Assembly. During the year, $39,944,000 of the $190,394,747 contribution from the Province of Alberta was reallocated to the Department of Agriculture, Food and Rural Development to be used for other purposes.

(b) **Insurance, Safety Net and Compensation Programs**

Programs administered by the Corporation are funded as follows:

	Premiums	Indemnities	Administration Costs
Crop Insurance Coverage up to 80% of risk	50% Producers 25% Alberta 25% Canada	Crop Insurance Fund and Reinsurance Funds	50% Alberta 50% Canada
Farm Income Disaster	N/A	100% Alberta[1]	Producer fees cover about 25%; Alberta covers balance
Hail Insurance	100% Producers	Hail Insurance Fund	100% Producers
Wildlife Compensation Waterfowl	N/A	50% Alberta 50% Canada	50% Alberta 50% Canada
Other	N/A	100% Alberta	100% Alberta
Revenue Protection (Program Terminated)	33 1/3% Producers 25% Alberta 41 2/3% Canada	Revenue Protection Fund	50% Alberta 50% Canada

(1) In accordance with cost sharing agreements between the Province of Alberta and the Government of Canada, the Government of Canada provides companion program funding to Alberta to be used for agricultural programs. The Province of Alberta, in turn, provided some of these companion program funds to the Corporation to fund $10,928,000 of the Farm Income Disaster Program indemnities.

The Crop Insurance and Waterfowl Compensation programs are administered in accordance with an agreement between the Province of Alberta and the Government of Canada. The agreement determines the percentage of premiums used to fund reinsurance and how indemnities are paid from each of the crop insurance and crop reinsurance funds. During the years ended March 31, 1996 and 1997, 15% of premiums were transferred to each of the Crop Reinsurance Fund of Alberta and the Crop Reinsurance Fund of Canada for Alberta.

The Revenue Protection Program was terminated after the final indemnities for the 1995 crop year were paid in January 1997. The surplus was distributed to producers, to Alberta and to Canada in proportion to premium contributions.

(c) **Lending Programs**

(i) The Corporation's loans are funded by borrowing from the General Revenue Fund. Prior to April 1, 1995, loans were funded through debentures issued to the Alberta Heritage Savings Trust Fund. The Corporation's lending operations are funded by contributions from the General Revenue Fund of the Province of Alberta through the Department of Agriculture, Food and Rural Development. The Canada-Alberta Partnership on Agri-food is funded by the Province of Alberta and the Government of Canada.

(ii) Certain office accommodation and support costs, totalling approximately $1,500,000 (1996 $2,300,000) are provided by the Departments of Agriculture, Food and Rural Development and Public Works, Supply and Services, and accordingly, these costs are not reflected in these financial statements.

Note 4 Loan Programs and Repayment Options

(a) **Beginning Farmer Program**
This program provides loans to eligible beginning farmers. Loans made under this program entitle borrowers, as long as certain conditions are met, to an incentive equal to 3% of outstanding principal over each of the first five years of the loan. Beginning farmer loans are made for terms of up to 20 years with interest at 9% and are secured by land and other farm assets.

(b) **Alberta Farm Development Loans**
Alberta farm development loans are issued by financial institutions to provide short and medium term financing for producers of agricultural products in Alberta. These loans can be for a maximum of $100,000 per individual partnership or company. The repayment terms are for periods of 20 years or less and interest rates equal to one of the following:

- lender's prime rate plus 1% for loans up to 10 years with variable rates; or
- lender's prime rate plus 1 1/2% for loans over 10 years, and for fixed rate loans.

Since 1973, the Corporation has negotiated three year agreements with financial institutions, to guarantee up to 90% of individual loans and up to 10% of the total loans issued by the institution in any three year period (see Note 15).

(c) **Loan Guarantees**
The Corporation guarantees certain farm and agribusiness loans made by other financial institutions and vendors in Alberta. The Province of Alberta indemnifies the Corporation for any losses that might be incurred on loan guarantees (see Note 15).

(d) **Disaster Assistance Programs**
In addition to programs offered under the Agriculture Financial Services Act, the Corporation also administers three disaster assistance programs. The programs were used to provide disaster loans, from 1990 to 1993, with non-interest bearing terms for two or five year periods. Alternatively, certain eligible borrowers could receive funds equivalent to the interest free benefit of a disaster loan.

(e) **Canada-Alberta Partnership on Agri-food**
This program provided financing to help stimulate private sector investment in the agriculture and food processing industry in Alberta. The program provided loans for eligible projects, which are non-interest bearing for a maximum of five years (see also Note 7(b)).

(f) **Indexed Deferral Plan**
Prior to March 31, 1993, the Indexed Deferral Plan allowed for the deferral of certain payments due on loans where that year's commodity price index was less than a 10-year average for the index. The terms of the deferral require that in years where the current commodity index is greater than the 10-year average index, a portion of the deferred balance will be payable. Interest is not charged on amounts deferred under this Plan.

Note 5 Accounts Receivable

	1997	1996
Premiums from insured persons:		
Crop insurance program	$ 2,611,811	$ 2,664,607
Hail insurance program	1,337,584	961,556
Revenue protection program	19,291	518,009
Farm Income Disaster Program fees	1,442,169	1,112,400
Recoveries, revenue protection program	157,195	1,087,909
Other	334,193	113,455
	5,902,243	6,457,936
Less allowance for doubtful accounts (Note 18)	(197,759)	(378,457)
	$ 5,704,484	$ 6,079,479

Note 6 Due from (to) Province of Alberta

	1997	1996
Unexpended grants and other	$ 70,994,862	$ 188,936
Surplus recovery	(660,788)	(15,009,025)
Notes and interest payable	—	(32,651,629)
Disaster assistance	—	1,159,342
	$ 70,334,074	$ (46,312,376)

Note 7 Government of Canada Funding

(a) Due from (to) Government of Canada

	1997	1996
Premiums and administration expense receivable	$ 15,955,610	$ 5,267,245
Surplus recovery	(494,185)	(25,017,044)
Canada-Alberta Partnership on Agri-food	—	(4,125,913)
	$ 15,461,425	$ (23,875,712)

(b) **Deferred Canada-Alberta Partnership on Agri-food Contribution**
The Corporation delivered the Canada-Alberta Partnership on Agri-food program which was funded equally by the Governments of Alberta and Canada. The amount shown in Note 7(a) does not include the deferred Canada-Alberta Partnership on Agri-food contribution.

One-half of the Government of Canada's share of the funding was repaid to Canada during the year. The other half of the Government of Canada's funding is used to defray the current and future administration and interest costs of the program. The unexpended portion of this contribution is shown as a deferred contribution on the balance sheet and is comprised of the following:

	1997	1996
Funding by the Government of Canada	$ —	$ 635,875
Less one half repayable	—	(317,938)
Contribution by the Government of Canada	—	317,937
Less expenses for the year	(120,855)	(844,273)
Add interest adjustment	1,274,223	—
Increase (decrease) in deferred contribution for the year	1,153,368	(526,336)
Deferred contribution at beginning of year	2,565,079	3,091,415
Deferred contribution at end of year	$ 3,718,447	$ 2,565,079

Note 8 Loans Receivable

Assuming that options to renew will be exercised, loans are repayable in instalments due as follows:

	1997	1996
Arrears of principal and interest	$ 11,409,348	$ 11,487,714
Prepaid balances	(19,517,861)	(19,056,780)
Principal due in:		
Year(s) 1	53,442,512	64,115,217
2	56,025,958	62,440,337
3	57,671,829	63,511,134
4	58,682,808	65,365,695
5	56,366,718	66,476,143
Year(s) 6-10	250,866,172	285,431,968
Year(s) over 10	216,022,829	255,953,585
Amounts deferred under the Indexed Deferral Plan	20,579,967	31,584,507
	761,550,280	887,309,520
Add accrued interest	30,818,884	32,932,131
	792,369,164	920,241,651
Less allowance for doubtful accounts (Note 18)	(25,304,861)	(24,013,669)
Less accrued incentives	(4,110,133)	(4,255,452)
Less loan discounts	(9,127,325)	(21,643,937)
	$ 753,826,845	$ 870,328,593

Included in the above are non-interest bearing loans which, before discounting, have principal amounts outstanding of:

	1997	1996
Indexed Deferral Plan	$ 20,579,967	$ 31,584,507
Canada-Alberta Partnership on Agri-food	13,463,280	15,289,067
Disaster assistance programs	951,566	33,419,785
	$ 34,994,813	$ 80,293,359

The allowance for doubtful accounts of $25,304,861 (1996 $24,013,669) includes a specific allowance for $3,918,862 (1996 $12,927,669) on impaired loans outstanding of $26,444,101 (1996 $47,915,972), excluding unamortized loan discount.

	Term to Maturity (1)				Not Interest	1997(4)
	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years	Rate Sensitive(2)	Total
Direct farm loans	$ 11,724,875	$ 55,125,869	$ 165,336,723	$ 470,302,337	$ 25,403,873	$ 727,893,677
Yield (3)	8.93%	8.94%	8.90%	8.97%		8.95%
Agribusiness	3,899,090	23,137,943	1,398,532	—	(2,502,397)	25,933,168
Yield (3)	7.30%	3.82%	7.61%	—		4.49%
Total	$ 15,623,965	$ 78,263,812	$ 166,735,255	$ 470,302,337	$ 22,901,476	$ 753,826,845
Yield (3)	8.53%	7.43%	8.89%	8.97%		

(1) Term to maturity reflects the period of time until a loan matures or where an interest rate is to be renegotiated.

(2) Includes indexed deferral loans, net impaired loans, general provisions, accrued beginning farmer incentives, accrued interest and unamortized loan discount.

(3) Yield represents the rate which discounts future cash receipts to the carrying amount.

(4) 1996 comparatives could not be determined.

Fair value was not established for the loan portfolio because there is no established market for the developmental loans made by the Corporation. It would be difficult to set a discount rate to determine fair value due to the variation of risk within the portfolio.

Note 9 Investments

	Term to Maturity[1]				1997	1996
	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years	Total	Total
Bonds and debentures:						
Government of Canada, direct and guaranteed	$ 5,092,291	$ 73,763,663	$ 8,681,397	$ 5,887,588	$ 93,424,939	$ 86,320,710
Province of Alberta	75,000	—	—	—	75,000	19,396,285
Other provincial direct and guaranteed	23,917,432	2,758,579	—	2,330,232	29,006,243	49,885,948
	29,084,723	76,522,242	8,681,397	8,217,820	122,506,182	155,602,943
Yield (2)	3.29%	4.46%	6.23%	7.40%	4.62%	7.95%
Fair value (3)	29,070,870	76,192,904	8,558,821	8,250,138	122,072,733	157,593,125
Marketable Securities:						
Government of Canada	53,790,108	—	—	—	53,790,108	—
Yield (2)	3.60%				3.60%	
Fair value (3)	53,732,531	—	—	—	53,732,531	—
	82,874,831	76,522,242	8,681,397	8,217,820	176,296,290	155,602,943
Accrued interest	1,478,382	1,839,998	155,721	162,499	3,636,600	4,175,132
	$ 84,353,213	$ 78,362,240	$ 8,837,118	$ 8,380,319	$ 179,932,890	$ 159,778,075
Fair value (3)					$ 175,805,264	$ 157,593,125

(1) Term to maturity classifications are based on contractual maturity of the security.

(2) Yield represents the rate which discounts future cash receipts to the carrying amount.

(3) Fair value is based on quoted market prices. Fair value does not include accrued interest.

Marketable securities were not recorded at fair value because amortized cost approximates fair value.

Note 10 Other Assets

Other assets consists of property held for sale and unlisted preferred shares. Property held for sale, consisting mainly of land, has been acquired as a result of foreclosures, quit claims and other actions.

	1997	1996
Cost of property	$ 2,240,921	$ 4,132,779
Less allowance for losses on realization (Note 18)	(1,466,952)	(2,754,084)
Estimated net realizable value	773,969	1,378,695
Unlisted preferred shares	—	$ 4,421,666
	$ 773,969	$ 5,800,361

The allowance for losses on realization of $1,466,952 (1996 $2,754,084) includes a specific allowance of $816,952 (1996 $1,693,303) on property balances outstanding of $1,990,382 (1996 $4,060,830).

Note 11 Capital Assets

	1997			1996
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	$ 115,000	$ —	$ 115,000	$ 115,000
Building	2,918,757	(470,565)	2,448,192	2,564,942
Computer equipment	4,978,218	(3,950,476)	1,027,742	1,040,096
Equipment and furniture	1,154,529	(682,576)	471,953	491,681
Vehicles	823,056	(481,667)	341,389	291,439
	$ 9,989,560	$ (5,585,284)	$ 4,404,276	$ 4,503,158

Note 12 Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities includes an unfunded pension liability. The Corporation participates with other employers in two defined benefit pension plans. These plans provide pensions for some of the Corporation's employees based on length of service and earnings.

The Corporation had an unfunded pension liability for each plan as at March 31 which was estimated as follows:

	1997	1996
Management Employees Pension Plan	$ 1,184,338	$ 827,892
Public Service Pension Plan	761,995	1,089,855
	$ 1,946,333	$ 1,917,747

The total unfunded pension liability for each plan as at March 31, 1997 was determined by actuarial valuations, as at December 31, 1995 for the Public Service Plan and as at December 31, 1994 for the Management Employees Plan, both extrapolated to March 31, 1997.

The actuarial valuations were determined using the projected benefit method prorated on service. Assumptions used in the valuations are based on each Pension Board's best estimate of future events. Each Plan's future experience will inevitably vary, perhaps significantly, from the assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations. Gains and losses which relate to the long-term are amortized over the expected average remaining service life of the employee group. Gains and losses for which there is reasonable assurance regarding their measurement and realization are recognized in income immediately.

The Public Sector Pension Plans Act specifies the basis to determine the amount of the total unfunded liability for each plan which will be funded by employers. The Corporation's portion of the liability was based on the Corporation's percentage of the total pensionable payroll of all employers in each Plan.

Note 13 Estimated Indemnities Payable

	1997	1996
Farm Income Disaster Program	$ 109,703,771	$ 91,000,000
Wildlife compensation	8,163,750	460,214
Crop insurance	7,448,256	1,642,140
Revenue protection	—	353,983
	$ 125,315,777	$ 93,456,337

Estimated indemnities payable consist of known liabilities payable at the year end and estimated additional liabilities for indemnities based on historical information about the relationships between the number of claim applications received and the average amount of each application.

The Corporation implemented the Farm Income Disaster Program for the 1995 crop year. The Program may pay a farm business when it experiences a disastrous drop in margins on farm operations. If the program margin falls below 70% of the average margin for the previous three years, an indemnity may be payable. Applications can be submitted for the 1996 tax year until July 31, 1997 and indemnities will be paid during the 1997-98 fiscal year.

The Corporation has recorded a liability of $106 million as at March 31, 1997 to provide for estimated indemnities payable under the Program for the 1996 crop year. This $106 million was funded by a contribution from the Province of Alberta of $65.1 million during 1996-97, unexpended contributions from the previous year of $25.6 million, a contribution from the Federal Government, investment income and other customer income. Since this will be only the second year for the program and results from the first year are not yet fully analyzed, predicting indemnities payable accurately is not possible. Actual indemnities to be paid may be significantly more or less than the estimated liability of $106 million. Indemnities payable under the Program are limited to a maximum of $200 million per year.

Note 13

Estimated Indemnities Payable (continued)

Estimated crop insurance and wildlife damage compensation indemnities payable are significant due to snowed under crops on which claims were outstanding at March 31, 1997. It is difficult to determine indemnity amounts payable because claims were not fully inspected and assessed prior to completion of the financial statements. The actual indemnities payable could be significantly different than the estimated amount if the crop conditions and yields at the time crops are finally harvested varies from assumptions made.

Note 14 Crop Reinsurance Funds

The Crop Reinsurance Fund of Alberta is held by the Province of Alberta. Contributions by the Corporation to this Fund, calculated based on a portion of eligible premiums received, are accumulated as a liability of the Corporation.

The Crop Reinsurance Fund of Canada for Alberta is held by the Government of Canada. Contributions by the Corporation to this Fund, also calculated based on a portion of eligible premiums received, are paid periodically. Amounts due from or to this Fund are included as a receivable or liability of the Corporation.

The balances in these funds, as at March 31, are as follows:

	Crop Reinsurance Fund of Alberta		Crop Reinsurance Fund of Canada for Alberta	
	1997	1996	1997	1996
Opening surplus	$ 28,927,288	$ 12,915,002	$ 41,381,803	$ 25,369,516
Current year contributions	16,245,129	16,012,286	16,245,129	16,012,287
Closing surplus	$ 45,172,417	$ 28,927,288	$ 57,626,932	$ 41,381,803

Note 15 Contingencies and Commitments

	1997	1996
Loan guarantees	$ 70,395,430	$ 65,017,828
Less allowance for losses (Note 18)	(6,805,000)	(4,998,000)
Total contingencies	$ 63,590,430	$ 60,019,828
Estimated farm loan incentives	$ 24,441,854	$ 25,921,355
Approved, undisbursed loans	16,740,388	19,438,563
Total commitments	$ 41,182,242	$ 45,359,918

Contingencies under the Alberta farm development loans program comprise $57,931,572 of the loan guarantees. Loans made by other financial institutions outstanding under this program at March 31, 1997 were $211,141,403 (1996 $230,903,139).

Note 16 Long-term Debt

Debentures payable and notes payable to the Province of Alberta are comprised of the following:

Series	Year of Maturity	Weighted Average Interest Rate	March 31 Principal Outstanding 1997	1996
Debenture A	2004	9.94%	$ 65,100,000	$ 73,100,000
Debenture B	2004 - 2005	9.13%	18,000,000	20,000,000
Debenture C	2005	8.53%	40,000,000	44,000,000
Debenture D	2006	8.23%	68,000,000	73,900,000
Debenture E	2006 - 2007	7.41%	72,600,000	120,720,000
Debenture F	2007 - 2009	8.49%	168,450,000	179,450,000
Debenture G	2009 - 2010	9.56%	64,990,000	68,870,000
Debenture H	2010 - 2011	8.50%	77,390,000	81,750,000
Debenture I	2012 - 2013	8.72%	31,980,000	33,210,000
Debenture J	2009	7.93%	37,443,324	39,259,354
Debenture K	2011	8.16%	34,692,945	35,984,951
Debenture L	2001-2002	7.39%	57,004,402	66,913,502
Note payable 001	2011	7.56%	24,419,251	—
			760,069,922	837,157,807
Accrued interest			9,563,904	11,772,697
			$ 769,633,826	$ 848,930,504

Principal repayments due in each of the next five years are as follows:

Year ending March 31,	1998	$ 62,978,761
	1999	$ 65,772,476
	2000	$ 69,977,258
	2001	$ 72,940,121
	2002	$ 69,688,473

	Term to Maturity (1) Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	1997 Total	1996 Total
Debentures & notes payable Province of Alberta	$ 102,780,000	567,770,671	65,100,000	24,419,251	$ 760,069,922	$ 837,157,807
Yield (2)	8.92%	8.33%	9.94%	7.56%	8.53%	9.05%
Accrued Interest					9,563,904	11,772,697
					$ 769,633,826	$ 848,930,504
Approximate fair value (3) at March 31					$ 828,317,427	$ 899,825,335

(1) Term to maturity reflects the period of time until an interest rate renegotiation date or the maturity date of the long-term debt. The interest rates are fixed for either a five year period or until maturity. Repayment is either by semi-annual or annual instalments of principal. The Provincial Treasurer may permit all or part of debentures to be redeemed by the issuer prior to maturity without penalty and the Corporation will redeem debentures when cash flow is adequate and the Provincial Treasurer authorizes redemption.

(2) Yield represents the rate which discounts the stream of future payments from the reporting date to the next interest rate renegotiation date.

(3) Fair values for debentures and notes are based on the net present value of future cash flows. Each individual cash flow payment is discounted at a rate which matches the term of the cash flow payment and is adjusted for a yield premium to reflect several factors. These include a liquidity premium to reflect the fact that if the debentures and notes are sold, there will be a limited pool of these securities trading in the market; and that the debentures and notes would be new to the market and are not direct issues of the Province; a premium for periodic interest reset feature where applicable, and a factor to reflect the blended payment structure of the debentures and notes.

Note 17 Interest Revenue

The Corporation does not recognize interest revenue on loans receivable where collection of the interest is in doubt. The amount of unrecognized interest revenue for 1996 was $2,917,907. In 1997, certain loans which had been considered as impaired in previous years were no longer considered impaired. Therefore, unrecognized interest from previous years on these loans was recognized in 1997, resulting in a net recovery of interest of $798,668 for the year.

Note 18 Allowances for Doubtful Accounts and for Losses

	Accounts Receivable	Loans Receivable	Other Assets	Loan Guarantees	Total
	(Note 5)	(Note 8)	(Note 10)	(Note 15)	
Allowances at March 31, 1995	$ 905,972	$ 34,845,417	$ 2,648,187	$ 5,342,000	$ 43,741,576
Transfers to other assets in 1995-96	—	(779,689)	779,689	—	—
Provision for 1995-96	(148,168)	(9,325,835)	(358,935)	(344,000)	(10,176,938)
Write-offs in 1995-96	(379,347)	(726,224)	(314,857)	—	(1,420,428)
Allowances at March 31, 1996	378,457	24,013,669	2,754,084	4,998,000	32,144,210
Transfers to other assets in 1996-97	—	(329,883)	329,883	—	—
Provision for 1996-97	369,589	2,362,621	(797,991)	1,807,000	3,741,219
Write-offs in 1996-97	(550,287)	(741,546)	(819,024)	—	(2,110,857)
Allowances at March 31, 1997	$ 197,759	$ 25,304,861	$ 1,466,952	$ 6,805,000	$ 33,774,572

Note 19 Comparative Figures

The 1996 figures have been reclassified where necessary to conform to 1997 presentation.

Agriculture Financial Services Corporation

Schedule of Revenue, Expense and Surplus

For the Year Ended March 31, 1997

	1997									1996
	Crop Insurance	Beginning Farmer Lending	Farm Income Disaster	Hail Insurance	Agribusiness Lending	Other Lending	Wildlife Compensation	Revenue Protection	Total	Total
Revenue:										
Premiums from insured persons	$ 59,661,020	$ —	$ —	$ 28,011,025	$ —	$ —	$ —	$ (11,387)	$ 87,660,658	$ 79,375,023
Interest (Note 17)	521,882	63,611,570	—	218,067	1,897,023	6,621,547	—	50,801	72,920,890	70,826,347
Contribution from Province of Alberta	39,057,978	19,577,610	68,742,589	—	3,703,170	2,098,220	9,788,509	148,924	143,117,000	184,373,263
Contribution from Government of Canada (Note 7)	33,659,597	—	10,928,000	—	(1,153,368)	—	3,383,858	140,492	46,958,579	39,126,072
Investment income	6,616,172	945,509	3,243,357	4,130,528	46,885	123,910	29,322	4,726,597	19,862,280	14,700,940
Fees and other income	60,694	451,882	1,244,137	403,147	350,675	459,912	38,306	129,141	3,137,894	1,660,467
Amortization of loan discounts	—	8,018,810	—	—	1,208,830	3,288,972	—	—	12,516,612	8,800,600
	139,577,343	92,605,381	84,158,083	32,762,767	6,053,215	12,592,561	13,239,995	5,184,568	386,173,913	398,862,712
Expense:										
Indemnities	50,958,664	—	80,548,296	18,765,645	—	—	12,743,192	(15,773)	163,000,024	164,774,945
Interest	—	65,141,484	—	—	1,065,111	7,416,942	38,369	—	73,661,906	84,645,128
Reinsurance	32,490,257	—	—	596,700	—	—	—	—	33,086,957	32,024,573
Disaster assistance interest benefit	—	—	—	—	—	—	—	—	—	16,320,780
Farm loan incentives	—	7,885,643	—	—	—	28,588	—	—	7,914,231	8,057,436
Administration, Schedule 2	13,146,279	7,825,524	3,646,793	4,673,760	1,468,008	1,214,758	465,642	336,577	32,777,341	31,129,147
Provision for doubtful accounts and for losses (Note 18)	115,524	951,973	—	25,976	2,311,266	108,391	—	228,089	3,741,219	(10,176,938)
	96,710,724	81,804,624	84,195,089	24,062,081	4,844,385	8,768,679	13,247,203	548,893	314,181,678	326,775,071
Excess (deficiency) of revenue over expense before recoveries	42,866,619	10,800,757	(37,006)	8,700,686	1,208,830	3,823,882	(7,208)	4,635,675	71,992,235	72,087,641
Recoverable by Government of Canada	—	—	—	—	—	—	—	(1,937,284)	(1,937,284)	(7,596,928)
Recoverable by Province of Alberta	—	—	—	—	—	—	—	(1,526,579)	(1,526,579)	(4,557,792)
Recoverable by producers	—	—	—	—	—	—	—	(1,185,248)	(1,185,248)	(6,076,449)
	—	—	—	—	—	—	—	(4,649,111)	(4,649,111)	(18,231,169)
Surplus (deficit) for the year	42,866,619	10,800,757	(37,006)	8,700,686	1,208,830	3,823,882	(7,208)	(13,436)	67,343,124	53,856,472
Surplus (deficit) at beginning of year	78,494,756	(19,826,055)	(7,585)	36,171,990	(3,383,561)	(5,205,720)	59	647,659	86,891,543	33,035,071
Surplus (deficit) at end of year	$ 121,361,375	$ (9,025,298)	$ (44,591)	$ 44,872,676	$ (2,174,731)	$ (1,381,838)	$ (7,149)	$ 634,223	$ 154,234,667	$ 86,891,543

Schedule of Administration Expenses

For the Year Ended March 31, 1997

SCHEDULE 2

	1997	1996
Salaries and benefits	$ 14,676,954	$ 14,733,026
Contracted services	3,433,018	3,561,453
Hail agents' commissions	2,862,763	1,927,428
Adjusters' wages and benefits	2,693,711	2,841,764
Travel and automobile	2,280,078	2,254,756
Office accommodation costs	1,166,245	1,211,415
Amortization of capital assets	962,070	917,969
Data processing	918,338	769,190
Telecommunications	823,399	190,703
Stationery supplies	803,420	750,973
Equipment, rental and maintenance	544,576	407,074
Advertising	457,481	223,352
Professional services	350,714	285,820
Training, meetings, seminars, conferences	237,944	291,644
Postage and freight	192,796	328,892
Directors' fees and expenses	131,331	149,277
Collection commissions	102,199	132,644
Grain grading	67,157	80,623
Bonding and insurance	55,730	54,062
Bank charges	17,417	17,082
	$ 32,777,341	$ 31,129,147

SCHEDULE 3

Schedule of Salaries and Benefits

For the Year Ended March 31, 1997

	1997				1996	
	Number of Individuals	Salary and Wages(1)	Benefits and Allowances(2)	Total	Number of Individuals	Total
Chair	1	$ 25,297	$ —	$ 25,297	1	$ 28,905
Board members	7	63,116	784	63,900	8	72,586
Directors' fees(3)	8	$ 88,413	$ 784	$ 89,197	9	$ 101,491
President and Managing Director	1	$ 98,100	$ 15,163	$ 113,263	1	$ 142,501
Vice President, Field Operations	1	79,245	20,197	99,442	1	89,363
Vice President, Finance and Administration	1	88,411	24,451	112,862	1	102,894
Vice President, Research, Information and Program Development	1	78,258	13,914	92,172	1	82,506
Vice-President, Insurance Operations	1	37,160	52,861	90,021(4)	1	87,737
Other management employees (average 1997 $73,863, 1996 $72,734)	22(5)	1,320,138	304,857	1,624,995	21(5)	1,527,408
Other salaried staff (average 1997 $43,859, 1996 $42,615)	246(5)	9,550,437	1,238,915	10,789,352	250(5)	10,653,696
Non-salaried staff		1,242,070	207,738	1,449,808		1,100,553
Subtotal		12,493,819	1,878,096	14,371,915		13,786,658
Retiring allowances			71,015	71,015		154,546
Unfunded pension costs			28,586	28,586		71,747
Relocation costs			81,710	81,710		299,260
Productivity Plus awards			—	—		305,000
Vacation pay accruals			123,728	123,728		115,815
Salaries and benefits		$ 12,493,819	$ 2,183,135	$ 14,676,954		$ 14,733,026
Adjusters' wages and benefits		$ 2,312,436	$ 381,275	$ 2,693,711		$ 2,841,764

(1) Salary and wages include fees for Chair and Board members and regular base pay and overtime for employees.

(2) Benefits and allowances include employer's share of all employee benefits, including health care, flexible health, dental and vision care allowance, group life insurance, pensions, employment insurance, accidental death/dismemberment and long-term disability insurance, workers' compensation, professional memberships and vacation payouts. No amount is included in benefits and allowances for an automobile provided to the President and Managing Director.

(3) Directors' fees of $89,197 (1996 $101,491) shown above plus expenses of $42,134 (1996 $47,786) for a total of $131,331 (1996 $149,277) are shown in Schedule 2 as Directors' fees and expenses.

(4) The salary and benefits are for the period April 1, 1996 to August 31, 1996. Benefits and allowances include a $43,500 retiring allowance.

(5) Number of individuals is stated in terms of full-time equivalents.

Regions and Districts

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